attachment to #8. 8a

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Tab A

Impact of the Pipeline Project on The Soviet Military Effort

-- Soviets have increased defense spending in real terms at an average annual rate of 4-5 percent since late 1950s; military now consumes 12-14 percent of GNP.

-- Economic growth is slowing and could drop to 2 percent or less by mid-decade. As a result, USSR will have increasing difficulty in maintaining pace of defense buildup. Military share of GNP could be a point or two higher in 1985 and three or four points higher in 1990 if past trends continue. More important, military could take as much as three-fourths of annual increment to GNP by end of the decade. (Figures A-1, A-2)

-- Although the pipeline project would not eliminate economic problems (it would at best add a few tenths of a point to GNP growth), it could ease the strain considerably in key sectors and thus facilitate the military effort.

  -- Hard currency earnings from the project could maintain the Soviets' import capacity in the face of declining oil revenues. This would permit them to continue to import large amounts of Western machinery and equipment. (Table A-1)

  -- Technology transfer associated with the project will benefit domestic gas production--the key to meeting Soviet energy demands in the 1980s. It would enable the Soviets to purchase Western Arctic-design extraction and processing equipment, large-diameter pipe and compressors--items which the USSR cannot match in quality nor produce in the quantities required.

  -- These aspects of the project will aid the military effort in two ways: some imported equipment financed by gas sales will likely be used in military systems; other imports will be directed to civilian uses, reducing pressure on the defense industries to switch to non-military products.

-- Collapse of the pipeline deal could significantly increase Soviet long range economic problems and the difficulty of maintaining the current pace of their military programs.

  -- Hard currency earnings could fall by $10 billion or more by 1990, requiring major cuts in purchases of energy and of Western goods that cushion the defense effort.

  -- Defense-related industries such as electronics, chemicals and machine-building could be especially hurt, because they [illegible] the machinery and equipment imports.

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-- Even without the 9,600 kilometers from Siberian gas fields to Western Europe, their five-year plan calls for them to build 15,000 kilometers of gas pipeline to meet their own energy needs. For them to produce in the USSR the equipment needed for these pipelines and domestic energy production, given likely trends in production of naval ships, ground force weapons, and aircraft engines, the Soviets would be forced to divert investment from other sectors and cope with important additional costs, delays, and stringencies. These could substantially increase the Soviets' overall economic problems and impose significant costs and difficulties in maintaining the pace of their military buildup.

These factors could induce the Soviets to at least reduce the growth of military spending (if not cut it in absolute terms).

-- They would not necessarily result in a reduction in Soviet military capabilities. Soviet defense spending is now so high (Table A-3) that with reduced growth (or indeed with no growth at all) substantial modernization of the armed forces as a whole would continue.

-- They could, however, require the Soviets to curtail or stretch out selected weapon programs and perhaps make them more forthcoming in arms control negotiations.